

Peter H. Werhahn

THE ENTREPRENEUR

**His Economic Function and Social
Responsibility**

For A.M. and in memory of P.

Ordo socialis

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Peter H. Werhahn

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Tel: 042 – 33 27 27

Telex: CIDJA 51110 NG • CASENU 51470 NG

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CONTENTS

INTRODUCTION5

PREFACE 6

I. GUIDING THE ECONOMIC PROCESS: PLANNED ECONOMY AND MARKET ECONOMY 7

 The Need to plan - The Centrally Administered Economy - The Market Economy

II. THE ENTREPRENEURIAL IMAGE IN THE COURSE OF HISTORY..... 8

 In Antiquity - In the Christian Middle Ages - Catholic Economic Ethics in the 13th Century - The Prohibition of Usury - The Social Roots of Hostility to the Entrepreneur The Liberal Position - The First Definition of the Role of the Entrepreneur: Schumpeter -Karl Marx

III. THE HISTORY OF THE MARKET ECONOMY..... 10

 Adam Smith and David Ricardo - Shortcomings of the Competitive Apparatus -The Industrial Revolution in the 19th Century - The Counteracting Forces: Marxism and the Christian Social Movement - The Economy as Automatism -The Renewal of the Liberal Theory: Eucken and Böhm Theory and Practice of the Social Market Economy

IV. THE ROLE OF THE ENTREPRENEUR IN THE MARKET ECONOMY 14

 What does an Entrepreneur do? - Creative Entrepreneur ship: Major and minor Innovations - The Profitability of the individual Firm as the Basic Condition -The Economic and Social Significance of Profit - Profit and Envy - Profit as a Motive for Action - Unjustified Profits - Maximisation of Profit and the Economic Purpose - The Modern View of Entrepreneurship - Mandated Entrepreneurs: Managers The Social Competence of the State - Human Coordination as a new Function of Entrepreneurship

V. THE ROLE OF THE ENTREPRENEUR IN CATHOLIC SOCIAL TEACHING.....	18
<p>A Social Doctrine is not an Economic Theory - The Treatment of Problems concerning Economic Systems - The Main Principles of Social Systems -The Ethical Competence of the Church - The Entrepreneur as seen in Catholic Social Teaching - The Tendency to Give Priority to Distribution over Growth - The Bible and the Philosophy of Growth - No one must be degraded to the status of a mere object. Economic Laws have recently been taken seriously</p>	
VI. THE IMAGE OF THE ENTREPRENEUR: FROM AFAR, AT CLOSE QUARTERS AND IN HIS OWN VIEW	22
<p>Differences between the 'Images' - Specific Problems of large Companies - The Image of the Entrepreneur has improved through greater Prosperity - Opinion Poll Results in the Federal Republic of Germany in 1983 - The Influence of Company Social Benefits - Long Distance Image in the USA - The Role of the Intellectuals - Lessons to be learned by Entrepreneurs</p>	
VII. THE MODERN ENTREPRENEUR: THEORY AND PRACTICE OF ENTREPRENEURIAL ACTION	25
1. Pressures of Competition	25
2. The Dirigist Temptation.....	26
3. Shadow Economies	26
4. Environment	28
5. Management of Human Resources	28
6. Enterprise culture	30
FINAL REMARK	33
BIBLIOGRAPHY.....	34
INDEX.....	37

INTRODUCTION

Over the past years and throughout the world the market economy system has gone through a reappraisal. Even socialist countries have made timid - if unsuccessful - attempts at introducing elements of a market economy into their planned economies. With the worldwide collapse of communism the market economy - of ten wrongly referred to as capitalism - has begun its victorious progress because it is more in tune with human nature.

Despite its economic and social superiority - especially in its manifestation in a social market economy - there is, even in the western industrialised countries, a remarkable lack of information as to how a market economy works. The Christian Churches still display a somewhat reserved attitude towards that system's basic elements: the market, competition and entrepreneurial activity. The entrepreneur, who is the centrepiece of the market economy system, is not given adequate recognition in the social doctrine of the Catholic Church.

We believe the time has come for Catholic social teaching to catch up on this deficit. Perhaps the centenary of 'Rerum Novarum' in 1991 may provide an occasion. The present booklet is intended to give an impetus in that direction. It is also meant to help towards smoothing the replacement of socialist command economies by the market economy system in the countries of Eastern Europe. This will require a broad consensus amongst the population and especially amongst the leaders of public opinion. Finally, we should be happy if the events in Eastern Europe were to convince the developing countries that their future, too, lies with the market economy, of which the entrepreneur is an essential element.

Comelius G. Fetsch
Johannes Stemmler

Cologne, June 1990

PREFACE

This paper deals with the entrepreneur, his economic function, his role in society and his socio-ethical responsibilities. It is addressed not mainly to entrepreneurs but in the first place to those who want to understand their role, tasks and responsibilities.

As a rule no one presumes to judge activities for which one is not oneself qualified. This is in particular true of the independent professions such as lawyers, doctors, physicists or philosophers, with whose fields of action the layman is more or less unfamiliar. At least there is evidence of some reticence in judging the qualifications of members of these professions.

This is not so with regard to the entrepreneur. In his case everyone seems to feel qualified to pass critical judgement though there is hardly any activity, which is so complex and difficult to grasp as that of the entrepreneur. His activities take place in a market economy at the crossroads of economics, politics, law, technology, psychology and ethics. He must constantly watch market signals in order to optimise the combination of factors of production and he must take decisions which are almost always subject to incomplete information and thus involve risk. He works in a feedback system composed of many interdependent influences. Everything he does with an eye to the future means deciding under conditions of uncertainty. Economically, the effect of his work is to allocate resources. If his decisions are wrong because he has misinterpreted the market signals, he will drop out of the market.

If, in view of these complex realities, an opinion is to be expressed on the subject of 'entrepreneurs', if prejudices are to be removed and thereby the conditions created for an objective assessment, the problem must be presented in all its aspects. This includes an explanation of the historical roots of the entrepreneur's image and its evolution and of the market system in which he is active as compared with that of a centrally administered economy. Only if this is done will there be any prospect of the economically and socially important activities of the entrepreneur being understood and properly judged.

Whilst the present paper was being prepared, revolutionary political changes have occurred in Eastern Europe which make for a new, free political and economic order. This renders the presentation of the social market economy and the role of the entrepreneur within it the more topical. For in most of these countries there is a lack of entrepreneurs and the rules are unknown by which a market economy functions.

I. GUIDING THE ECONOMIC PROCESS: PLANNED ECONOMY AND MARKET ECONOMY

Human action is by no means always planned; it is often determined by chance, sometimes chaotic, not infrequently imitative or playful. Economic activity, on the other hand, must always be planned and rational if it is to be successful. The supporters of state economic planning have rightly pointed out that in a market economy too, entrepreneurs act according to a plan -i.e. that they prepare short-, medium- and long-term plans for their economic actions. The need for economic planning results from the scarcity of goods and services available to mankind. With his limited forces and resources man endeavours to satisfy his needs as best he can. Without planning, that is to say without the advance weighing of alternative decisions and their optimal combination, there can be no economic activity, even though the individual may not always be aware that he is in fact planning. The decisive question in assessing an economic system is: *Who* does the planning? There are those who believe that all planning should be done by the state in order to ensure the optimal results. The German economist Walter Eucken has coined the term of a 'centrally administered economy' to describe *the system in which the state guides the economic process*. Most of the supporters of such a system call themselves 'socialists'. After almost seventy years of experience with planned economies in socialist countries we are bound to note that this solution has failed. Since the autumn of 1989 the dramatic events in Eastern Europe have confirmed this finding.

The opposite pole to a centrally administered economy consists in guiding the economic process through market prices emerging from competition between the representatives of supply and demand. This is what we call a market economy. In it, planning is spread over a multitude of individuals. The planned economy is characterised by compulsion, freedom is the hallmark of a market economy. In it, decisions by individuals are not controlled through a comprehensive central plan but by the signals set through prices for goods and services. In such a system the entrepreneur, who decides on investment and production in the light of market signals, plays a central role. In a properly functioning *market economy*, market prices ensure that goods and services will move towards their best host; this is true both of producers and consumers. Therefore, the prices not only for consumer goods but also for all intermediate products and raw materials must be allowed to form freely so that they can fulfil their guiding role. However, a market economy can function only if the state provides a proper institutional *framework*. To that extent, not even a market economy can dispense with the exercise of public supervision, but within the limits set by the principle of 'intervention in accordance with the market rules' (Röpke). It is vital that there should be an effective system of law -especially adequate competition legislation -to prevent the market system being breached through anti-market arrangements between the parties. It does not matter so much to the functioning of the market system that competition be perfect, as that there should in fact be competition. The foundation of all is the recognition of private property and the enforceability of the principle of 'pacta sunt servanda'. This makes sure that the freedom of economic action shall not be brought to nought by arbitrariness or the abuse of power. Private property is not only a precondition for the functioning of a market economy, it is at the same time the ethical guarantee of man's freedom and dignity.

II. THE ENTREPRENEURIAL IMAGE IN THE COURSE OF HISTORY

Understanding of the economic process and the entrepreneur's role within it has undergone a long and varied history.

In antiquity and during long periods of the history of the Christian Church mercantile and entrepreneurial activities were considered 'inferior', 'ugly' and 'sinful'. This goes back to Aristotle who considered the philosopher's *otium cum dignitate* to be a more worthy life-style than the work of the merchant who lacked inner peace: his activities were tantamount to negotium, or busy-ness. And so Aristotle fulminated against the money thinking of his time and the destruction of the natural order of society', which this allegedly brought about. St. Chrysostomus, Archbishop of Constantinople at the turn of the 4th to the 5th century, believed that merchants could hardly live a life without sin. And Thomas Aquinas also considered the mercantile profession as being tainted with moral inferiority. Finally, it is said in Gratian's important 12th-century textbook of canonic law that it is difficult for a merchant to please God.

The books of the Old Testament and Christ's teaching concerning the rich have equally contributed to the negative image of entrepreneurship throughout history right up to the present time. There is a much quoted text in the Old Testament (Deuteronomy 23, 19-20) which forbids the taking of interest. In the interpretation of the speeches of Jesus concerning the rich it has been forgotten that riches in the sense of the Gospel mean sterile, wasteful riches, but not modern 'wealth, which comes from the creative contribution to the common good made by entrepreneurial productivity. The sterile luxury-wealth as condemned in the Bible is nowadays to be found not so much in the so-called capitalist countries as in the pre-capitalist, feudally organised societies of some *developing countries*.

Johannes Messner has pointed out with more emphasis than others that despite the moral verdict of St. Thomas, Catholic economic ethics of the 13th century did discover the entrepreneur. For the importance of the entrepreneurial function in attaining the economic goal of the common good was realised. In judging the burgeoning merchant enterprises the yardstick of the common good was applied. Accordingly, the entrepreneurial function is found to be in the common interest, so that the ensuing profits do not give rise to moral scruples. The social moralists of the time, whilst adhering to the medieval theory of money, which maintained that money in itself was sterile, nevertheless claimed that entrepreneurial profits did not contravene the prohibition of usury. In this way the interdiction of usury encouraged the entrepreneurial spirit: interest on loans was forbidden, but capital profit from entrepreneurial activity was permitted. Later economic historians such as Werner Sombart have pointed to the great importance of this distinction. However, this important discovery of medieval social ethics was all too soon forgotten in favour of the theologians' and philosophers' old hostility to the entrepreneur. In spite of the theoretical dislike, which most theologians felt with regard to merchants, the Church nevertheless offered them its protection early on. In 1074 Gregory VII. used the threat of excommunication to protect Italian merchants from attacks by the King of France. It soon emerged that merchants were considered good Christians and therefore were not rejected but welcomed by the Church. To an increasing extent the attitude of the medieval Church was influenced by the usefulness of merchants, not least those who provided a link with the Orient. Theory and practice were no longer wholly the same

The hostility displayed by many theologians and philosophers towards entrepreneurs may be related to the fact that in the pre-industrial age of subsistence economies household and enterprise were one, and the entrepreneurial function played but a minor part. But dislike of the creative entrepreneur, which was felt for centuries, has a socio-psychological root also. In the past most people cherished the image of the farmer peacefully ploughing his furrow as the ideal fulfilment of human existence. His life was not subject to fundamental change. Year for year his rhythm remained the same. He was the symbol of a peaceful society. The entrepreneur, however, was rightly considered to be someone whose essential task it was through his

creative ability to change the existing shape of things. Schumpeter has described the capitalist process, in which the entrepreneur is the main driving force, as one of 'creative destruction'. Little wonder, therefore, that evil, destructive powers have long been attributed to this figure. It is a basic characteristic of man that attachment to his present way of life is linked with fear of unpleasantness which might come from dreaded change. We can therefore understand that the life of the good husbandman was in many different cultures regarded as the ideal form of human existence, whereas the entrepreneur was mistrusted as being an almost demonic figure.

Even the founding fathers of liberal economic science found no room for the creative entrepreneur. They considered him superfluous. Though Adam Smith (1723-1790) made the great discovery that the economic process must be seen as a cycle, he remained within the mechanistic views of the 18th century and interpreted the economic process as if it were a natural law. From this there flowed the theory of laissez-faire liberalism which believed in guidance by an 'invisible hand' that would guarantee a pre-established harmony. David Ricardo, the second founding father of Manchester-Liberalism, also considered the entrepreneur to be superfluous: in his opinion the economic process was in a way automatic. These writers regarded the entrepreneur as merely the *provider of capital*, the capitalist, as Karl Marx was later to describe him

The high esteem enjoyed by Smith and Ricardo has meant that several later generations still adhered to this negative appreciation of the creative entrepreneur. It was only much later, at the turn from the 19th to the 20th century, that economists recognised the essential role of the creative entrepreneur in ensuring economic growth. Alfred Marshall (1842-1924) added *organisation* as a 4th factor of production to the three classical ones, land, capital and labour. It was only in 1912, when J.A. Schumpeter's 'Theory of Economic Development' was published, that a positive theory of entrepreneurship was generally accepted. According to Schumpeter it is characteristic of the entrepreneur's specific function to recognise and to practice new combinations of the factors of production. Schumpeter's model is the creative entrepreneur, the driving force of innovation and thus of economic growth.

Somewhat later Goetz Briefs defined another important function of the entrepreneur, which is *to keep prices and costs in check and in proportion to one another*.

To do this, an efficient accounting system is needed within enterprises. Nowadays the use of computers enables the entrepreneur to keep an effective check on his own decisions and thus fulfil the task that Briefs outlined.

It is particularly interesting to note that the theory of Adam Smith was one of the elements in the thinking of Karl Marx. To Marx, the entrepreneur was merely the capitalist who invested his capital in his enterprise and then withheld from the workers the well-earned surplus value, which allegedly they alone had created, thus exploiting them. Paradoxically, the other source of the atheist young Marx, in his socio-ethical quest for more social justice lay in the biblical doctrine of the sinfulness of wealth. It was the motive of envy, which, in the 19th and 20th centuries, led socialism into the error of considering a policy of distribution to combat poverty more important than a policy directed towards growth. It is however remarkable that Karl Marx realised perfectly well that his utopian ideal of a society living in paradisiac abundance could be attained -if at all -only through allowing the much disliked entrepreneur in an interim phase to accumulate capital and so to make economic growth possible. Thus the creative entrepreneur entered into the teachings of Karl Marx by this detour as a personage to be temporarily tolerated and then abolished by the Revolution.

III. THE HISTORY OF THE MARKET ECONOMY

The guiding function of market prices as understood by Adam Smith and David Ricardo lay at the beginning of the history of the market economy. It was the first step towards a theory of the market economy. However, its founders believed in a wholly mechanistic economic process, guided by an invisible hand. This was tantamount to a separation of the economy from man. In such a system the entrepreneur theoretically only played the role of the provider of capital and not that of the driving force in the economic process. Consequently, in such a system there was no social responsibility on the part of those involved and thus also no economic ethics. This led to a policy of pure laissez-faire, in Britain to what has become known as Manchester Liberalism and in the United States to the excesses during the period of rapid industrial expansion, whose entrepreneurial protagonists were occasionally referred to as 'robber-barons'.

In contrast to the early liberals we now understand certain shortcomings of the competitive apparatus in the form of imperfect markets, such as oligopolies and monopolies. We realise that, in contrast to the belief of the classical liberals according to Smith, the market system functions semi-automatically at best and needs to be properly operated. If certain claims for social equalisation and social security are to be met, we must try to build in the appropriate stabilisers. The competitive system must be supplemented by a social policy, which looks at man not only in his functions of producer and consumer but sees him as an individual human being.

It is true that the market principle is morally good, since it ensures the optimal supply of goods. However, this presupposes a functioning competition securing the positive social effects of entrepreneurial profit-orientation. In addition, certain preconditions must exist which will guarantee social adjustments. It is nevertheless necessary to emphasise that a policy of social adjustment cannot be implemented if it runs counter to basic economic laws such as the scarcity of available resources and the need for cost-covering prices.

The road leading from the classical liberal market economy to a social market economy has been long and painful. Industrialisation in the countries of Europe from the beginning of the 19th century was marked by the mass misery of the industrial proletariat. Long working hours, frequently seven days a week from morning to night, child-labour, low wages and no sickness insurance or old age pensions typified the situation of the industrial worker during that period. The main changes brought about by the industrial revolution lay in two fields:

1. the transition from a feudal to a liberal economy;
2. a burgeoning of technical inventions and discoveries which served to boost the production of goods -beginning with the invention of the steam engine by James Watt nearly 200 years ago.

Despite the circumstances favouring economic development, the first phase of the industrial revolution brought much misery, mass-poverty and suffering in its wake. How is this to be explained? The abolition of the feudal system freed the rural population, the majority of whom had still been living in conditions of serfdom, and this meant that they could now all marry and found families. All were now able to base a legally free existence on their ability to work alone, so that restrictions on marriage could be removed. The consequence of this was a hitherto unknown increase in population. In the industrialised countries the population trebled within a century. Britain, for instance, had 10 million inhabitants in 1800; by 1850 this had already increased to 20 million. Better medicine and more hygiene contributed to a constant increase in the expectation of life. But the economic and technical development, rapid as it was, could not keep pace with this rate of population increase; though the number of work places increased quickly in the many new factories the birth-rate expanded even more quickly, and thus also the number of those in search of work. This was the real cause of the in

itself so contradictory phenomenon of the mass-misery of the workers during the first phase of the industrial revolution.

But it is true that the liberal economic system contributed to the fact that the working wages of these unpropertied masses were depressed below the yield of their work, which was in itself low. It was thanks to the trade unions that this margin of 'exploitation', i.e. the difference between the real and the possible fair wage, could be narrowed step by step.

The misery of the industrial working class in the early years of industrialisation gave rise to riots by the poverty-stricken workers who took their impotent rage out on the machines in which they saw their enemy. Such uprisings occurred in the British, but also in the German textile industries.

Political forces began to take shape in an attempt to remove the existing social injustices or at least to mitigate them. In several countries laws were passed to limit working hours, and in particular child labour. In 1848 Karl Marx and Friedrich Engels published the Communist Manifesto in London which may be considered the birth-certificate of the international revolutionary workers' movement. In that document, which had its effect well into the 20th century, the principles of so-called scientific Communism were established: a materialist view of history, the theory of the class struggle, and the dictatorship of the proletariat as the political aim. It ended with the battle-cry: "Workers of the World, unite!".

This marked the beginning of the international socialist workers' movement. The rise of the trade unions began, first and foremost in Britain. However, not only politicians and unionists but economists as well turned against laissez-faire liberalism and its excesses. In the second half of the 19th century what was known as academic socialism developed in Germany, whereas in Britain it was the Fabian Society. Both exerted considerable influence on the intellectuals in their respective countries, an influence directed towards an anti-market-economy socialism.

But within the churches, too, there were those who stood up for workers' rights, something that Christian entrepreneurs had been advocating for some time. Long before Karl Marx there were Catholic intellectuals, such as Joseph Görres, who criticised the social consequences of untrammelled capitalism. Adolph Kolping and Bishop Wilhelm Emmanuel von Ketteler advocated socio-political reforms in place of communist revolution. They became the pioneers of a Christian Social movement. Before Marx they had founded associations, which were to become the forerunners of our present-day Catholic social associations, such as the Kolpingwerk, the Catholic Workers' Movement and the Association of Catholic Entrepreneurs. In the longer run their activities became politically effective through the German Center Party. Later, their claims were taken over by papal teaching. In the first social encyclical "Rerum novarum" (1891) Pope Leo XIII confirmed the need for a state social policy and the right of workers to form trade unions. He also stressed social responsibility attached to private property which, in contrast to Marxism, he explicitly recognised. In his encyclical the Pope pilloried the social weaknesses of early capitalism and called upon employers to treat their workers justly and to pay them decent wages.

Under Bismarck social insurance laws were passed in Germany in 1883, 1884 and 1889, which afforded the workers protection in the case of sickness, accident or old age.

It is safe to say that not Marxist revolution but social-political reform has to a large extent solved or at least greatly mitigated the social problems of 19th century Europe.

The social-political movement opposed the fundamental principle of Smith's system which regarded the economy as something automatic in which there was no room for ethics, i.e. socially responsible action. Even today, Milton Friedman the well-known economist, now with the Hoover Institute at Stanford University, holds the view that the common good is best promoted by entrepreneurs pursuing their own interest with the exclusive aim of profit; he

considers the economy to be a morally neutral sphere governed by its own laws in which socio ethical aspirations have no place. It took until the thirties of this century before the liberal economic theory was revitalised, probably in response to the international spread of socialist thought. Vital contributions first came from the Freiburg School of Walter Eucken and Franz Böhm. They realised that the market as the guiding system cannot be left to itself but needs a framework of compatible conditions if it is to be socially acceptable.

After World War II the ideas of the Freiburg School were further developed in the Federal Republic into the concept of the social market economy. Its political promoter was Ludwig Erhard, the legendary first Minister of Economics of the Federal Republic, intellectually supported by Wilhelm Röpke and Alfred Müller-Armack who coined the term 'social market economy' and their 'ordo-liberal' circle. These men were convinced that in the long run the rules of the market would work only if they are supported by a basic ethical consensus.

Müller-Armack defined a social market economy as an economy governed by the rules of the market but equipped with social flanking measures and safeguards. Such a social market economy is not a natural product but a fragile cultivated plant.

Immediately after the war there was great misery in Western Germany. Everything was short in supply. Most production plants had been destroyed or damaged. A severely dirigist war economy and inflationary monetary policy had left behind repressed inflation and an economy in ruins. There were many who counselled that this misery be administered by further dirigist measures such as price controls, rationing (of foodstuffs) and production planning.

In contrast, Ludwig Erhard had the courage to trust in the creative forces of a free economy, and to impose the necessary decisions. In so doing he took up the recommendations of the Freiburg School whose main proponents had realised after the war that not physical destruction was the primary cause of the continuing misery, but the 'faulty organisation of the productive apparatus in the economy'.

After a radical monetary reform, imposed by the victorious powers on 21 June 1948 doing away with the immense volume of excess money, Erhard abolished rationing and price controls. Thereby he provided a margin for creative deployment through the initiative of countless 'entrepreneurs' in the broadest sense of the word -initiative, which so far had been penned up and had only found a partial outlet in the Black Market. The result was what has become known and much admired as the German Economic Miracle, with real annual growth rates of an average of 8 % p.a. plus a virtually stable currency. The precondition for the success of such a policy was that in Western Germany certain basic economic structures, such as the right to private ownership of the means of production, had survived and that there were capable entrepreneurs.

According to Müller-Armack the concept of the social market economy reposes on three principles:

1. Economic policy can be meaningful only if it is conducted on the basis of one overall idea of a social order.
2. Interventionism, which endeavours to attain aims of economic policy by unsystematically intermingling various concepts, cannot be tolerated.
3. Economic policy must be derived from a single socio-economic concept (Ordnungs-idee), which must be either that of the market economy or that of the administered economy. No third way holds out any hope of success.

The evolution from a market economy to a social market economy as described above shows that in the past entrepreneurs have had to adapt to continuously changing conditions. This of ten rendered it more difficult for them to comprehend their own position and led them to misunderstand their role. The latest example of changing conditions is that of the emergence of

ecological problems, for the solution of which a social market economy has proved to be more suitable than any other economic system.

IV. THE ROLE OF THE ENTREPRENEUR IN THE MARKET ECONOMY

Literature on this problem provides some contradictory and at any rate confusing replies. Nor does the famous 'man in the street' have a clear picture in his mind as to what an entrepreneur is or does. The reason for this is that the entrepreneur's main function is to take decisions and to implement them. These are abstract processes, which outsiders are unable to observe. Therefore most people stick to concrete facts and tend to regard the entrepreneur as the provider of capital, the capitalist who with his capital founds an enterprise and keeps it going.

This view is wrong. It is only necessary to realise that an entrepreneur can very well establish and run an enterprise with borrowed money, i.e. with capital saved by others. What matters for the entrepreneur's role is not that he has capital whether it be his own or someone else's but what he does with it. Thus the 'capitalist' interpretation of his role is evidently not correct.

Others have tried to understand the role of the entrepreneur on the basis that he provides employment. He is briefly defined as the employer. But this again does not encompass his specific role. After all, doctors, lawyers, scientists also employ staff and so they are employers too. The best known and correct definition of the role of the entrepreneur was supplied by Schumpeter who describes the creative entrepreneur as someone who, by means of ever new combinations of the factors of production brings about innovation and so makes economic growth possible. This definition again is not exhaustive. Not all entrepreneurs are creative in the sense of Schumpeter. Though it should be remembered that the sum of many small innovations which can be technical, organisational or commercial (marketing methods!) does in fact contribute to economic development.

Of course, special importance attaches to the spectacular and of ten high-risk innovations, which again and again provide the thrust for speedier economic growth. A hundred years ago it was the use of electricity and chemistry, and more recently we have seen the transition from mechanical, electrical and electro-mechanical systems to electronic ones which went along with ever more miniaturisation and the evolution of software. In more detail one can recall the global importance in the forties of plastics, in the fifties of transistors and electronics, in the sixties came the first generations of computers and since the seventies there has been rapid development in the field of microprocessors. Our present decade seems to be witnessing the introduction of gene-technology into the economy, which will lead to revolutionary changes in the food industry amongst others.

Such fundamental innovations by which technical discoveries are translated into economic production and marketing are important, but they are not the only possible entrepreneurial activity. In addition, the great innovations of ten require a vast input of capital and carry heavy risks. All too easily - and frequently - the original innovators find him in great economic difficulties. An American proverb says: Pioneering does not pay.

The entrepreneur must live with risks. This is so not only in theory but in of ten most painful practice also, as is borne out by the bankruptcy statistics. In 1986 und 1987 the following bankruptcies i.e. failures of enterprises, were registered in the Federal Republic of Germany:

1986: 13.456 1987: 12.058

In both years retail traders accounted for 15 % and relatively new enterprises which had existed for no more than 8 years, for 75% of the total.

The above definitions of the role of the entrepreneur, one sided but positive, are in contrast with the aggressively negative assessments according to which the entrepreneur is no more than a parasite who exploits his position in order to appropriate to himself undeserved profits. In this view the entire economic process is a zero-sum-game in which each participant attempts to gain as much as possible at the expense of the other players, and in which the entre-

preneur allegedly holds a privileged position. Such an approach completely leaves out of account the growth process in which the entrepreneur is the driving force for economic development.

What, then, really is the role of the entrepreneur? There is no simple answer. All depends on the system of socio-political values in which he must play his role. Of course he is responsible to his own moral conscience for his actions and his own interpretation of his role, but at the same time he is influenced by, and even dependent upon, the system of values prevailing in the society in which he works.

Nonetheless there are some important criteria which apply to the role of the entrepreneur in any free society.

The market economy rests fundamentally on the principle of profitability for the individual enterprise, a principle which is essential for entrepreneurial action. Profitability is what Götz Briefs meant when he defined the entrepreneur's task as being to keep costs and prices in check and proportion. This means that he must -quite selfishly -strive for profit. Gain, acquired by correct methods, is the yardstick by which entrepreneurial action is measured. The demonisation of profit, which is especially wide-spread amongst socialists, fails to understand the important function of profit in the interest of the common good. Only profit enables the entrepreneur to ensure the continuity of his enterprise and to risk further innovations in order to generate growth. We can, therefore, understand why the well-known American trade union leader S. Gompers said on one occasion "The greatest crime an entrepreneur can commit is not to make a profit".

In the United States attitudes to profit are less ideologically cramped than in Europe where the field of vision has been narrowed through wide-spread Marxism. In fact, profits are being greatly exaggerated. Comprehensive statistical enquiries have shown that about 15 % of national revenue is accounted for by capital interest and profit so that wages and salaries account for 85 %. It should also be remembered that what is popularly called profit consists of three different elements: first, the normal interest on the capital invested, then the wages to which the entrepreneur is entitled for his work, and finally the remainder which represents the real profit of the enterprise; This remainder fluctuates and represents the real reward of successful entrepreneurial action.

If despite all this profit is so often criticised and discredited as being immoral then, apart from ignorance concerning the scope and the economic function of profit, the motive of envy certainly plays an important role. In his book on the subject of envy Helmut Schoeck goes so far as to describe it as the root of all egalitarian socialist economic theories. It is a guiding principle of the so-called welfare economy to aim at the lowest level of envy for the largest possible number of people. This, however, contradicts human nature, which will always and under all conditions find cause for envy.

It is sometimes said that to maximise profit is the most important motive of entrepreneurial action. The truth is different. Certainly, it is impossible to do without profit. But this is not the ultimate, let alone the only, spring that activates the entrepreneur. He is motivated by the joy of creativity, sense of family, a desire to have a strong position in the market, and social prestige. Though entrepreneurs strive for profit, most of them are in the first place concerned with preserving the enterprise. This requires long-term thinking and sometimes the need to refrain from short-lived profit maximization. It is a well-known fact that excessive profits drawn from fleeting competitive advantages attract competitors and thus reduce the chances of future profits. In the United States the practice of corporations to pay out quarterly dividends has introduced a tendency towards short-term thinking, which is damaging to the economy as a whole.

The wise entrepreneur is concerned not with some momentary maximization of profit, but with the 'maximisation of a total situation' in which profit is only one component.

It cannot be denied that unjustified profits exist. These arise when entrepreneurs endeavour to circumvent the rules of competition. To make this impossible the state must provide effective cartel and antitrust legislation. Unjustified profits also arise when the state adopts dirigist measures curtailing competition, such as by issuing licences, or by introducing concessions or quotas through which the enterprises so favoured can make monopoly profits. These conditions prevail in a number of developing countries but are rare in the industrialised world.

In order to be successful the entrepreneur needs a gift for creative combination, realistic powers of imagination, a talent for coordination, and energy. He can make ruthless, individualistic use of his abilities or he can employ them in a socially responsible manner.

Even a ruthlessly individualistic entrepreneur can serve the common economic good by being successful and thus contributing to the material well-being of society. Died-in-the-wool liberals in the classical sense, such as Friedman even consider inadmissible the use of profits for social purposes. The only social responsibility in the economy, which he will admit, is that of increasing profits through the correct use of resources. This type of entrepreneur encourages the caricature of the egocentric boss whose only motive is profit and who enriches himself at the expense of his employees and consumers.

Friedman and those who think like him do not understand that though the economy is a rational system with its own laws, it is nevertheless embedded in a comprehensive cultural context. Entrepreneurs must therefore act in such a way as to attain the purpose of the economy which, to quote Werner Sombart, is the 'cultural function of ensuring welfare'. The human aspect of economic activity must also be taken seriously for the benefit of all. To say this is to reject the concept of the total entrepreneur who can only think in terms of economic success, who has no time left for his wife, his children, for beauty, for religion, for God. An enterprise is a social entity and it is part of the entrepreneur's task to try and make it possible for those who work for him to experience that enterprise as part of their own lives. This is of ten very difficult, due to the technical objectivation of much that is done in the enterprise and alienation arising from its organisation. The slogan of 'Man in Enterprise' which was coined a number of years ago shows that efforts along these lines have become part of the modern entrepreneurs view of his role. Moreover, it has emerged from sociological studies that those who favour authoritarian methods of command are clearly in a minority amongst entrepreneurs.

It is desirable and in many cases even necessary that those who are being led should take part in the process, which leads to decisions at the top. The preconditions of good teamwork are that all who work in an enterprise should be informed and trained and should contribute their own ideas. Teamwork does not conflict with the need that the entrepreneur should alone be responsible for the economic running of the enterprise. To run the enterprise is quintessentially the entrepreneur's task. This requires a clear concept in order to motivate those who work with him.

Apart from owner-entrepreneurs we now have countless entrepreneurs who do not own the enterprises they run. Nowadays they are called managers. Their function is entrepreneurial in the original sense of the term. We have seen earlier that the role of the entrepreneur does not presuppose that he is at the same time the owner, or capitalist. The entrepreneurial function is largely independent of ownership. In large enterprises this means a strict distinction between the entrepreneurial function and that of the shareholders. Managers, who could be defined as entrepreneurs mandated by owners, be they private or state providers of capital, do however differ from owner-entrepreneurs in one important point: it does not much matter to them who is the owner of the enterprise, i.e. it can well be owned by the state. So long as the state runs 'its' enterprises within the framework of a free market economy system, this does not matter.

There is however the constant danger that the state may abuse 'its' enterprises for purposes of dirigist intervention or by granting them special conditions. Managers appointed by the state are hardly likely to oppose such intervention, at any rate to do so would not be in their natural interest. To that extent then the mandated entrepreneur offers a lesser guarantee for the continuation of a free market economy system than does the owner-entrepreneur. That is why governmental policies to privatise are to be welcomed.

The proper role of the state in the economic process lies in a different field: it must intervene where the market fails and where, in the interest of the common good, the economic process needs to be adjusted; and the state must do so by means which are compatible with the market as defined by Röpke. This is particularly true with regard to the protection of the sick, the socially weak, children and the elderly. This is a specific characteristic of the social market economy. But, wherever possible the state should, in its social policy, help people to help themselves in accordance with the principle of subsidiarity thereby avoiding the total welfare state which paralyses the functions of the market economy so important for the common good. It is not the task of the state to save unsuccessful entrepreneurs and their enterprises. The state is not a repair shop for lame-duck entrepreneurs.

The many tasks of the entrepreneur, including his social responsibility presuppose the strength to run an enterprise in a continuous process of major and minor decisions, frequently taken in conditions of uncertainty and with incomplete information. In addition to his classical functions of finding innovative combinations of the factors of production and of keeping control of the enterprise he now has to take on the further function of personnel management. Though this task has always existed, its central importance has only recently been recognised. It can be successful only if the entrepreneur is a good communicator and is able to motivate those who work with him. His responsibility for the common good also includes acceptance of social partnership and with it the recognition of independent trade unions as not only a troublesome but a necessary negotiating partner.

Entrepreneurial qualifications and leadership qualities define the entrepreneur, not ownership or wealth.

V. THE ROLE OF THE ENTREPRENEUR IN CATHOLIC SOCIAL TEACHING

Social doctrine as evolved in the Catholic Church is not an economic theory but, as Pope John XXIII put it in his Encyclical 'Mater et Magistra' (1961) it is 'an integral part of the Christian doctrine of man'. Its purpose is to set out generally applicable values and systems as a lodestar for responsible service in the world. That is why it endeavours to apply the standards, which it has established to social circumstances as they exist. Catholic social teaching is concerned not only with the ethical behaviour of individuals within any given social or economic system, but also with the optimal socio-ethical design (or change) of that system. To that end it has devised social principles which however do not yet amount to a concrete social or economic system but do in fact provide an essential contribution towards their foundation.

Initially, social problems were in the forefront of Catholic social teaching, as emerged clearly from the first social Encyclical, 'Rerum Novarum' in 1891. But it was also clear from the outset that such matters could not be considered without reference to the problems inherent in economic systems.

Therefore, Catholic social teaching has from the beginning engaged in a critical analysis of the collectivist-socialist (centrally administered, planned economy) and the liberal-individualist (market economy) systems.

Recently however, Cardinal Joseph Höffner, who died in 1987, and had once been a student of the famous economist Walter Eucken, pointed out that for some years Catholic social teaching had been intensively concerned with economic issues, especially those of the global economy. The Cardinal himself had in fact at an early stage studied issues of economic ethics because these must be understood as part and parcel of general social ethics.

But what is new is not the reference to economic causes of social problems that had been done before - but the more intensive and direct discussion of economic issues. This in fact goes back to 'Quadragesimo Anno' (1931) and was cautiously continued in 'Mater et Magistra' and the Pastoral Constitution of the Second Vatican Council 'Gaudium et Spes' (GS; 1965), in 'Laborem Exercens' (1981) and especially in the latest social Encyclical 'Sollicitudo Rei Socialis' (SRS; 1987). In recent years this trend has noticeably increased, and very particularly so in non-doctrinal statements of various individuals or groups within the Church. One important example of this in the recent past is the Pastoral Letter "Economic Justice for All" by the Catholic Bishops of the United States. The Church, wishing to face reality, finds itself before the dilemma that it needs borrow from the social sciences which offer widely differing interpretations of reality.

Catholic social teaching sets down the following as its most important principles underlying the social order:

1. Personality, i.e. the dignity of man expressed through personal freedom and self-responsibility (which implies the recognition of private property).
2. Solidarity, i.e. society and its members are mutually interlinked and responsible for one another.
3. Subsidiarity, i.e. the relationship between the individual and society in which the individual (or the subordinate group) has priority over the superior group.
4. The Common Good seen as the state's duty to ensure common justice and as fairness in the relationships between individuals.

Solidarity, Subsidiarity and Common Good are developments of the principle of personality which is anchored in the Christian image of man.

The Church considers it its task and its right "to pass moral judgment even in matters relating to politics, whenever the fundamental rights of man or the salvation of souls requires it" (GS 76).

The *Pastoral Constitution of the Church in the World of Today (Gaudium et Spes)* of the Second Vatican Council is of special importance to Catholic social teaching. In the chapter on social and economic life the Church expressly acknowledges the material conditions necessary for man's well-being. The entire first part is devoted to the subject of 'economic progress' (Sections 64,65 and 66). Section 64 says expressis verbis: "we must encourage technical progress and the spirit of enterprise, we must foster the eagerness for creativity and improvement, and we must promote adaptation of production methods".

In Section 64 the Council also speaks of 'the economy's own methods and laws'. It follows from this that the economy cannot be called upon to meet just any demand. Therefore the laws of the economy must be applied "in accordance with techniques and methods belonging to the moral order" (GS 64). The Council does however point out that the real meaning of economic activity is to serve mankind. In a market economy this postulate is fulfilled by the fact that this system is based upon voluntary contracts. Therefore the entrepreneur can be successful only if he serves his customers.

In Section 65 the Council expressly rejects any teaching "which subordinates the basic rights of individuals and of groups to the collective organization of production". The Council urges as a matter of justice and fairness "to put an end as soon as possible to the immense economic inequalities which exist in the world" (GS 66). This evidently refers to the problems of the developing countries.

What concerns us here is the treatment handed out by Catholic social teaching since the first great social Encyclical 'Rerum novarum' to entrepreneurs as the key figures in a growth-oriented social market economy.

We are bound to note first of all that until the most recent social Encyclical 'Sollicitudo Rei Socialis' the entrepreneur is not explicitly mentioned at all in Catholic social teaching ; the only reference through out is to employers. It would seem that the anti-Church stance of the classical liberals has created an attitude critical of entrepreneurs with in the Church. It must also be remembered that the menace of losing the masses, especially the industrial workers, in the wake of the spread of socialism has led the Church to give priority to its concern for the working masses. This emerges very clearly from the social Encyclicals from 'Rerum Novarum' to 'Mater et Magistra'.

Up to 'Sollicitudo Rei Socialis' the Encyclicals hardly mention the function of the entrepreneur. This is particularly true of the Council's pronouncements in 'Gaudium et Spes'. It was an important step that in 'Laborem Exercens' the illusion was removed that work is equal to dependent labour. It is also true that ever since Leo XIII Catholic social teaching has always presupposed the existence of the entrepreneur without ever naming him - and has in some way included him in its thinking. This becomes clear from the constantly repeated acknowledgement of the institution of private property, the emphasis on the priority of private over state initiative in the economy, and in the confirmation of private responsibility as a pre-condition for an entrepreneurial economy.

In an address to Catholic entrepreneurs in 1964 Paul VI clearly stressed the importance of the entrepreneurial function. But at the time that was exceptional. Originally, Catholic social doctrine evolved without, and thus in a way in opposition to, the entrepreneur. As recently as in 1961 representatives of Catholic workers were invited as official guests to the solemn pronouncement of 'Mater et Magistra' -but no representatives of Catholic entrepreneurs. Economics in its own right and with it the figure of the entrepreneur has never or hardly ever been able to gain a foothold in the Church or among theologians or even among educated Catholics' -and if

they did, then only in a negative, moralising way. Even today there are many in social Catholicism who can see only the 'capitalist' and the 'employer', a phenomenon we can only define as ideological myopia. It is also in conflict with the fact that the Church does not consider the economy as an area divorced from the spiritual and cultural but as an eminently creative and responsible force in the life of man. The Church regards the economy as falling within the cultural area (PP 21, SRS 26,8; 29,8; 30,1; 33,5; 34,1 -3; 34,5; GS 19,57).

Since Catholic social teaching gives priority to the social aspects of economic issues, it tends to attach more importance to the problems of distribution than to those of growth, in which the entrepreneur plays a decisive role. In the Pastoral Letter on economics issued by the U.S. Bishops in 1986 this attitude induced its authors to prefer a dirigist welfare state to a growth-encouraging market economy. Basically this is due to the fact that the principle of solidarity had been placed above that of subsidiarity. Indeed, many theologians and high-ranking churchmen tend to reject the market economy system, which rests upon the private initiative of entrepreneurs, private ownership of the means of production, the market and competition.

It is not so very surprising that Catholic social teaching has discovered the entrepreneur so late when it is remembered that at even economic science -as we have seen -took a very long time before it learnt to understand fully the role of the entrepreneur. To have stressed the cultural function of the economy at an early stage is the merit of Catholic social teaching. In this it bases itself on the biblical teaching that man has been commanded to make himself master of the earth. But there are also other statements in the Bible which give a positive appreciation of growth-oriented thought and thus of entrepreneurial action. There is the parable of the man who, wishing to go away for a while, called his servants and ordered them to administer his possessions. One made five talents into ten, another turned two into four. But the third, who had been given one talent buried it in the ground and hid his master's money instead of increasing it. When the master returned he praised the two who had increased his assets, but called the other a wicked and slothful servant (Matthew 25, 14-30). This parable shows that trust worthy administration is not enough, but that creative action is expected. In economic life this means that to ensure growth is one of the entrepreneur's tasks.

Let us here repeat what has been said before, namely that economic growth is not a goal in itself, but must serve the common good. Which means the totality of political, social and economic conditions in which man can unfold himself.

It is odd that even where the doctrine of ownership and priority of private initiative are based on the principle of solidarity, as in 'Mater et Magistra', profit derived from enterprise is not expressly mentioned as being one element of an entrepreneurial economy. It is true that in 'Quadragesimo Anno' (1931) the investment of profits is called for in order to combat unemployment, which implies the legitimacy of profit. But even where, as in 'Populorum Progressio' (PP) it is claimed that each nation needs to produce more and better goods, there is no mention of the entrepreneurial effort, which that pre-supposes. Much the same can be said with regard to 'Gaudium et Spes' (Sec. 64). And when, in 1964, Paul VI praised the efficiency and the achievements of entrepreneurs in an address, he placed the main emphasis on their function as employers; the social aspect ranged before the economic.

It had always been an important point in Catholic social teaching that all those engaged in the social process should do so in their own right as individual persons and that nobody should ever be degraded to the status of a mere object. This insistence flows from the principle of personality upon which Catholic social teaching is founded. But it is only in 'Sollicitudo Rei Socialis' that the right to entrepreneurial initiative which derives from the principle of personality is for the first time mentioned as a right based on freedom. It is then emphasised that the right is of importance not only for the individual, but also for the common good. For the first time, then, Catholic social teaching has made it clear that entrepreneurial spirit a and forma-

tion of capital are in fact the motor driving economic growth. This acknowledgement is of the greatest importance, especially for the developing countries.

'Gaudium et Spes' unfortunately does not yet pay sufficient attention to the formation of capital -a shortcoming which seems to have been made up in 'Sollicitudo Rei Socialis'. Newer development in Catholic social teaching shows that more attention has been paid to the laws of the economy. Cardinal Ratzinger recently noted that 'Ethics which believe they can do without any understanding of economic laws are not ethics but moralism and thus the very opposite of morality. Objectivity which thinks it can do without ethics fails to understand human reality and thus ceases to be objective'. Even 'Quadragesimo Anno' in its Section 43 recognised that the laws of the economy show the aims which are attainable and those which are not. Also the Second Vatican Council has recognised the existence of economic laws.

From the varied history of the entrepreneurs's role in Catholic social teaching there arises the obligation upon the entrepreneur to see his role as one of responsibility for the common good, which includes his human responsibility for those working with him. The Christian entrepreneur stands neither for exaggerated individualistic selfish responsibility only, without any state intervention, nor for the collective welfare state. Care for those entrusted to him is part of his responsibility. However, the essential human aims of an entrepreneurial economy cannot be realised at the expense of an efficient economy. But humanitarian spirit and economic efficiency do not, in the long run, exclude one another -they are inclusive of one another. This is the message of Catholic social teaching which the modern entrepreneur will accept and he will acknowledge that man is more important than capital.

From the own social teaching of the Church follows that the entrepreneur cannot be substituted by the socialist manager. The market-economy, superior with respect to the commonweal, by its own laws needs the entrepreneur. However, it is not an "entrepreneurs' economy" in which the entrepreneur dominates, because he is tied into a system of competition and open markets.

VI. THE IMAGE OF THE ENTREPRENEUR: FROM AFAR, AT CLOSE QUARTERS AND IN HIS OWN VIEW

In nearly all industrial societies now exist more or less comprehensive sociological studies concerned with the entrepreneur's image in society. In very general terms, that public image is not positive. As explained above, this is to some extent due to the fact that his work is neither visible nor understood. There is also left-wing agitation which has chosen the entrepreneur as its main target for social criticism. From all this there has arisen a caricature of the entrepreneur as an exploiter, profiteer, market-rigger. Nor is his popularity increased by the fact that for objective and economic reasons he must frequently say 'no'.

What then is this image in greater detail in the mirror of sociological analysis? The studies have shown that it is better not to speak of the 'image of the entrepreneur' in general terms, but to distinguish between several images. Schmölders' 'hypothesis of distance' has found much academic support; it distinguishes between the image 'from a far' and 'at close quarters'. In Schmölders' own words: 'Whilst the image from afar mostly corresponds to a more or less thoughtlessly adopted mass-psychological stereotype, the individual image at close quarters reflects a person's own experiences in his relations with a particular entrepreneur'. According to the 'hypothesis of distance' the image at close quarters is both more differentiated and more positive than the stereotype image from afar; these findings seem to be generally accepted.

It has been possible to prove in the Federal Republic of Germany that there is a close inter-relationship between the image of the entrepreneur and the size of the enterprise. Polls undertaken in large companies more of ten result in a negative view taken of the entrepreneur. This is certainly to some extent once more due to the difference between images from afar and at close quarters. The distance between an employee and his supreme boss, whom he considers the entrepreneur, is usually greater, and their relationship more anonymous, than in a small or medium-sized enterprise. Many large companies have reacted to this by improving the relationship between the top and the basis through more decentralisation or more intensive communication. In addition, it is now known that even considerations of profitability and cost-reduction make it advisable to adopt a caring attitude towards employees. Therefore, the attempt by large enterprises to improve the close quarters image of the entrepreneurs is not merely an end in itself, but part and parcel of modern management. The physiology and Psychology of labour and the psychology of personnel management have long taught us that it is worth while to take account in various ways of the physical and psychological individualities of employees.

In the Federal Republic of Germany the image from afar of the entrepreneur has improved over the past years, not least because of increasing prosperity, to which industry and entrepreneurs have made a considerable contribution since 1948. If in most developing countries the image of the entrepreneur is very negative, this is due to state dirigism in the societies of these countries, where real creative entrepreneurship has hardly any chance whereas accumulation of riskless profits is encouraged.

Apart from the distinction between the images from afar and at close quarters, these sociological studies contain further interesting differentiations:

In addition to the *outsider's* image which others form of the entrepreneur, or which he presumes they have of him, there is also the entrepreneur's *self-image* and the *presumed self-image*, which others believe he has of himself.

Understandably, the entrepreneur's self-image is as a rule positive. Consequently, there is considerable job-satisfaction. On the other hand, the outsider's image, which the entrepreneur believes others to have of him, is rather more negative than that which emerges from polls. Entrepreneurs tend to take a pessimistic view of society's appreciation of their activity as reflected in public opinion.

In 1983 60 % of white and blue-collared workers in the Federal Republic of Germany were satisfied with their bosses (image at close quarters), only 19 % were angry with them, and 15 % did not risk an assessment. Irrespective of whether the assessment of the boss was positive or negative, hardly anyone wanted to change positions with him, let alone believed they could do better

In the Federal Republic the number of those who recognise and appreciate the importance of the entrepreneur in making the market economy work had been increasing steadily since 1950. The recent arrival upon the scene of a new generation which has not experienced the miseries of the post-war period nor the way in which they were overcome by the market economy, has clearly boosted the number of those who look upon the entrepreneur as an exploiter. This is most true of the 16 to 29-years old with secondary or university education. It is due to the influence of left-wing ideology in schools and universities.

A study undertaken in 1983 on the effect on the entrepreneurial image of social services provided within an enterprise has produced interesting results. It shows that 64% of workers and employees in companies which provide but few social services are none the less satisfied with their bosses. In companies with broad social services, the figure is 61 %. This again reflects the negative influence of large enterprises, where as a rule social services are more comprehensive. It is true that in the public mind the ideal entrepreneur is the one who provides the greatest possible scope of social services. Entrepreneurs themselves, however, feel that such a policy is only to a limited extent compatible with their real function. Social-mindedness and a caring attitude vis-a-vis employees alone will not enable any entrepreneur to hold his own in the competitive struggle. Evidently many employees, especially those of smaller enterprises, seem to have grasped this.

In the United States, where to be a 'manager' or a 'top-manager' is a recognised and much desired position in life, the 'image from afar' of the entrepreneur is far from glamorous. The man in the street seems rather to be in two minds about entrepreneurs and the vital accumulation of capital. It is said that in the loss of credibility that has affected all institutions the image of the business world has suffered relatively more than most. This is to some extent reflected in the image of the entrepreneur or manager in recent literature and the entertainments industry where the clique of the unscrupulous, domineering, envious and morally doubtful entrepreneur has become the general pattern. The internationally known Dallas and Dynasty film series may serve as an example. Such a negative image is mainly promoted by left-wing intellectuals, but also by the Churches as for instance in the 1986 Economic Pastoral Letter issued by the American bishops. In contrast to this it has emerged from many public opinion polls in the United States that American public opinion, including the trade unions, accepts profit as an essential element of the market economy system. The average citizen considers himself to be sympathetic towards private entrepreneurs and profit. But in his attitude he distinguishes between small and large enterprises: the large ones are viewed with a more critical eye and greater reserve.

If we look for the causes of hostility towards and denigration of entrepreneurs, including those with a social conscience, we will find that in all countries the intellectuals play an important role.

In many countries teachers working in schools or universities of all kinds have but little knowledge of what an economic system is and how it works. Entrepreneurs are almost exclusively regarded in the marxist image of exploiters and profiteers. Intellectuals of all shades criticise existing conditions, very of ten without any factual knowledge and without any willingness to accept objective information proffered.

For example, most textbooks used in American Colleges are at worst anti-capitalist and at best egalitarian and interventionist. Particular mention must be made of Paul Samuelson's textbook, of which several million copies are used. Though not all textbooks and not all

teaching at American colleges are ideologically slanted, the mainstream of teaching and literature is however left-wing.

Despite the broad sweep of their political attack on free entrepreneurship the left-wing intellectuals find little political support amongst the mass of the American people.

Similar trends can also be observed in other industrialised countries. These intellectuals only display their ignorance of the economy and its laws. Whilst they combat entrepreneurial profits, they themselves continually endeavour to obtain the best sales-conditions for their literary and artistic products. The large number of intellectuals in the free world is unthinkable without an economic system which can produce the surpluses needed to maintain them.

The lesson entrepreneurs should draw, more than heretofore from the analysis of their image, which clearly ranges from the critical to the negative, is that they should promote their positive self-image in public. Many entrepreneurs are shy of publicity. It is not sufficient to engage some 'experts' for public-relations work. Entrepreneurs must be prepared to face the public themselves and to engage themselves in matters of social policy. This includes a readiness to accept honorary post or local, regional or national level by co-operating in their own industrial organisations, but also in charitable, religious, cultural or sporting associations. In some cases the argument 'I have no time' may be convincing. But it is part of the entrepreneur's job to arrange his working day rationally and that includes a reasonable organisation of own tasks and the time needed for them. Many entrepreneurs tend to dissipate their energies on too many details instead of delegating responsibility, and this is one of the reasons for their alleged lack of time. Another reason is that in some cases increased economic power through accumulating board memberships is preferred to honorary activities.

There are many means by which entrepreneurs can improve their public image -they must only use them.

VII. THE MODERN ENTREPRENEUR: THEORY AND PRACTICE OF ENTREPRENEURIAL ACTION

The economic and moral challenges to entrepreneurial action are manifold. The entrepreneur is meant to lead his enterprise to success. This means that he is supposed to supply the market with ever-new products and services, and to do so at the lowest possible price. This requires innovative and cost-conscious action. But there is also an ethical yardstick for his work. It is not only a matter of more and better products, of turnover and profit, but also one of ethical standards by which his action is to be guided. Management ethics means the determination of the entrepreneur and his senior staff to conduct the enterprise in accordance with ethical, i.e. value-related, standards. This implies that action is guided by social responsibility, respecting and enhancing the moral values of the cultural environment to which the entrepreneur belongs.

With a little exaggeration one might say that the ethics expected of an entrepreneur consist of the correct ratio between profit and the common good in its widest sense. Manfred Spieker says: 'The common good depends on the entrepreneur. Even before the beginnings of industrialisation entrepreneurs turned scientific discovery into technical invention and rational methods of production'. Because economic activity is rational, enterprises which produce profits are a pre-condition of the common good. The ability and readiness,

- to show initiative,
- to take decisions,
- to accept effort, 4. to take risks,
- to understand markets and their evolution,
- to aim for innovation,
- to lead, and in particular
- to inspire associates and to co-ordinate their work

are the main qualities of the entrepreneur.

The entrepreneur is expected to be able and willing to deal with others in a sociable and tolerant manner; with staff, customers, suppliers, colleagues, competitors, works councils and unions.

As was shown in the description of the social market economy, a certain social, legal and political framework is required if the entrepreneur is to deploy his qualities for the successful management of his enterprise. This framework however, he cannot provide himself.

In real life we shall rarely meet the ideal entrepreneur. There is often conflict between the economic and the ethical challenges he must meet. Below, we shall deal with some of the challenges to the entrepreneur but also with his endeavours to meet them.

I. Pressures of Competition

A market economy thrives on competition between entrepreneurs. Pressure of competition is the spur to ever better performance in order to hold one's own against competitors. Entrepreneurs whose performance is weak drop out of the market; their enterprises go into bankruptcy. It is therefore understandable that many entrepreneurs endeavour to manipulate the market. They do not only try to improve their productive performances, they also invent strategies to protect them from the risk of bankruptcy. These include production secrets, patents, a clever spread of the gammut of production, and advertising. These methods may be ethically acceptable. Frequently however attempts are also made to keep prices above the real competitive

level by agreements between competitors. Suppliers of homogenous mass-goods such as cement, bricks, gravel, coal and steel are particularly prone to this.

Thus there exist many markets in which competition is imperfect. However, modern evolution towards ever more variegated products and services has split the markets and thereby rendered the manipulation of competition more difficult.

All action impairing the rules of competition is to be rejected as a matter of principle. But the temptation to such misbehaviour is great. Röpke has said: 'The market economy saps morality, unless an appropriate system and legislation counteract the many temptations to which an entrepreneur may be exposed. He refers to laws against restriction of competition (cartel-legislation, merger controls, antitrust legislation), labour law and social legislation. It is the state's obligation to guarantee a framework, which will force entrepreneurs to act in accordance with the market. The principle of 'pacta sunt servanda' is a further condition for a viable market economy. But the rules laid down by the state must be compatible with the system, they must not distort competition. It is in this sense that we should interpret the dictum of the famous Catholic social scientist Oswald von Nell-Breuning, that that economic system is the best which requires the least moral effort.

Schumpeter pointed out at an early stage that every entrepreneur tends to drive his competitors out of the market and is, therefore, a menace to the market system, the efficiency of which, however, depends on there being a large number of competitors. But he also shows that in some cases imperfect competition can bring with it considerable advantages for economic development. It is often alleged that entrepreneurs avoid competition and try to make unjustified monopoly-profits by manipulating the markets. This may be temporarily so in individual instances but in real life violations of competition are not the rule. The overwhelming majority of entrepreneurs face up to competition every working day. It is that and nothing else which has made possible the great market economy successes in many western countries.

2. The Dirigist Temptation

Dirigist economic systems are those in which the state interferes directly in order to guide the economic process. This can be done in many ways:

- by fixing prices instead of letting the market determine them,
- by setting quotas for raw materials or imports,
- by fixing wages,
- by issuing production rights for certain products;
- by licencing enterprises.

All these dirigist measures prevent free competition and favour those who enjoy government support. Since the risks of competition are set aside, those who benefit from this dirigist system can expect easy profits without economic effort. Such a system prevents economic growth but is a major temptation to many entrepreneurs. This alone can explain why, especially in the developing countries, so many who call themselves entrepreneurs, but do not really merit that name, do not oppose state dirigism. Thus the task of establishing a market economy system is in the first place a political one. Far-seeing, wise and responsible entrepreneurs support such political efforts, as has been the case in many European countries after the last world war.

3. Shadow Economies

In almost all countries, though to different degrees, there exists what is known as a shadow-economy or black market. This is economic activity taking place outside the legal framework of a country. The cause of such activities can almost always be found in unreasonably high

taxation of profits which penalises, instead of rewarding, private initiative. But excessive bureaucratic red tape can also paralyse private initiative, which then seeks an outlet in the shadow-economy. This is of course even more true of economies organised on a mercantilistic-dirigist basis. The existence of a shadow-economy points to the presence of a large creative reservoir of entrepreneurial initiative, which is not being tapped by the official economy.

The Peruvian shadow-economy provides an interesting example. In his book 'El otro sendero' which has aroused great interest especially in Latin America, Hernando de Soto has described it in detail. The informal economy is the spontaneous and creative response of the people to the incompetence of a mercantilist-dirigist economic policy of the state. The costs of the legal bureaucratic procedure involved in obtaining a licence to set up even a small enterprise are such that a normal citizen with modest assets cannot pay them. In an example of 1983 the licencing procedure took 289 days and its cost amounted to 32 minimum monthly salaries.

It was even more expensive to acquire ownership of a house by legal means. Low-income families wishing to build houses on a plot of land owned by the state would need almost seven years to work through all the central and local government offices involved in the licencing procedure. Even the licence to set up a simple kiosk at a street corner takes 34 days of struggle with the appropriate bureaucrats.

In his book de Soto shows that at the time of his research (1983) there was no de facto market economy in Peru. It was only the unlawful self-help on the part of the population, which developed the beginnings of a market economy in the form of the black market. De Soto describes the official economy as 'mercantilistic' with which he means to say that the state is more concerned with re-distributing national wealth for the benefit of a privileged 'elite' closely bound to it, than with creating new wealth: one-sided re-distribution instead of growth. There are almost 70 new decrees issued daily and the number of economic laws and decrees is said to be more than half a million, roughly only 1% of which have been passed by parliament and the rest by executive organs.

The black market is the answer of the masses to such an inefficient and unjust system. The people do not care one iota about the law. They go into the streets and sell what they can, they open up shops and build houses on unused land.

De Soto does not idealise the informal market. On the contrary, he points out the weaknesses and dangers of such an illegal economy, which cannot plan into the future and lacks the protection of the law.

The development described above began after 1940 with the rural exodus to the cities, where however there was neither housing nor work to be found. In 1940 9% of the population of Peru lived in Lima, by 1981 it was 26 %. The immigrants very soon realised that their only chance to survive, to trade, to produce, to transport, to consume lay in illegal work. This was not criminal illegality, it was an act of self-help in order to attain lawful ends: housing, services, or the setting up of a business. Peru has become a country in which 48% of the economically active population, and 61 % of working hours spent in the informal black market, produce 39% of Gross National Product (GNP). In a very detailed study de Soto describes how the informal housing market, informal business and the informal transport system came about and how they work. In Lima in 1982, 43 % of accommodation was accounted for by informal settlements. Street vendors also play an important economic role. There were 91.455 of them in Lima in 1986 most of them working illegally. In 1984, 91 % of the vehicles used in mass transport were operated illegally.

What has all this to do with our subject, the entrepreneur? The self-help actions of a population oppressed by bureaucracy show that there is a vast reservoir of creative forces. Courage, the readiness to accept risks, initiative and imagination are needed to carry out productive economic activities in the way this was done in Peru.

Entrepreneurial forces are at work here. Of course such an unlawful emergency system is neither ideal nor desirable. Its productivity and its ability to make use of technological progress are less than they would be under proper legal conditions. One important reason for this is the lack of general confidence in the law, the characteristic of a well-ordered stable state and a pre-condition for a viable market economy. The example of Peru is not one to be imitated. But it shows the entrepreneurial forces that can be mobilised in a proper market system.

It is also an encouraging experience for the peoples of Eastern Europe who have decided to replace their centrally planned economies with free economies guided by market prices.

4. Environment

Until a few years ago there seemed to be no problem about the unlimited use of the environment as a refuse dump and factor of production indeed that seemed to be a matter of self-evidence. Gaseous waste products (smoke and car exhaust fumes) were cheerfully released into the air, polluted, heated, poisoned water channelled into rivers and oceans, huge dumps of ten toxic materials piled up. Meanwhile the limited capacity of the environment to digest pollution has been recognised. Here again, the economic law of scarcity applies. Entrepreneurs are of ten accused of showing no understanding for the environment and are pointed to as the real sinners.

Such an assessment betrays a failure to understand the situation: as long as the environment can be used free of cost, it follows from the principle of competition that it will be used without limit and that no high-cost environmental protection measures will be adopted. No doubt many entrepreneurs have meanwhile realised that a constructive environmental policy is part of their role in society. This is reflected in the sometimes costly individual measures taken by many enterprises, and even more so in the support which entrepreneurs and their associations lend to governmental efforts to enforce environment friendly techniques. The market economy system is perfectly capable of solving ecological problems through appropriate legislation compatible with the market. Because once the environment can no longer be used free of cost, it becomes possible by means of prices to internalize the costs and thus control the burden on the environment. It is however important that society should really wish to solve these problems, which in practical terms means a readiness to accept higher prices for many products, to do without many others (wrappings, propellant gases) and to forego some conveniences.

This gives rise to difficult problems for responsible entrepreneurs which in most cases can only be solved within a legal framework. What matters is that a social market economy is perfectly capable of solving ecological problems.

5. Management of Human Resources

The entrepreneur's classical functions are to combine the factors of production in the best possible way in order to create a profitable enterprise, to keep a check on costs, and to seek innovation. To these there has now been added another important task, which is the management of people. It is not only a humanitarian challenge as expressed some years ago in the slogan 'Man and the Enterprise' but also an important operational task. This has now been understood.

Much of enterprise-management is personnel-management as expressed in a style of leadership to encourage performance. That is possible only if account is taken of the self-esteem of the people working in the enterprise. Human beings are not machines nor are they lifeless pawns in a game of chess. That is why the formerly wide-spread style of authoritarian leadership finds ever fewer adherents, though orders (= decisions) and obedience (= execution) cannot be dispensed with. The trouble is that a purely authoritarian attitude very often fails to bring about the desired performance. That is why in recent years a more cooperative style of leadership has been aimed at. In addition to his technical competence the entrepreneur must

also be able to communicate. The ethical foundation of the cooperative style of leadership is that all who work in the enterprise are respected as human beings so that they can feel that they belong and share in responsibility. It is important that the entrepreneur should gain the confidence of those who work with him. To that end he must

- never promise what he cannot keep,
- always honour promises made,
- say nothing rather than speak less than the truth.

This kind of thinking in cooperative categories proceeded not from ethical considerations, but rather from considerations of profitability and cost-saving. It was found that it pays to take the individual physical and psychological characteristics into account in the enterprise. A wise and responsible entrepreneur knows that his economic success depends not only on machines but very much on the people who work together in the enterprise. This must not be confused with any sentimental social attitudes on the part of the entrepreneur. Because a social approach and good human relations alone will not help any entrepreneur to hold his own in the competitive struggle. The following key terms will show what is meant by this in a modern enterprise.

- Information and motivation of all workers,
- Communication within and between management levels,
- Delegation of responsibility,
- Encouragement of team-work,
- Humanisation and greater flexibility in accommodating workers' needs,
- Continuous training and formation of workers.

Modern management presupposes the mental cooperation of those who are being managed.

When Hans Martin Schleyer was President of the Federation of German Employers' Associations he once said: 'In the social process which we call leadership the directing impulse of will can no longer move unilaterally and exclusively from the top downwards. Priority must certainly remain where the initiative was conceived, but in that process those who are being led should not remain merely passive. Their participation in the decision-forming process is desirable'.

Though it is true that a socio-ethical approach on the part of the entrepreneur is to be desired and even insisted upon, there do exist objective obstacles to the constant practice of the desired human consideration in an enterprise's daily routine. Alienation which in most cases cannot be escaped, and necessary objectivation stand in the way of this. Despite their best intentions entrepreneurs may of ten be unable, in the interest of competitiveness, to do without rationalisation and mechanisation. In each case the entrepreneur must take his decisions in accordance with his own conscience.

Responsible leadership of men is not easy. But it is necessary in the interest of the enterprise and its workers. According to Max Weber, ethically motivated action can be based on 'ethics of commitment' (Gesinnungsethik) or on 'ethics of responsibility' (Verantwortungsethik). The entrepreneur who knows that at the end of the day he has to answer for the foreseeable consequences of his actions will base them on responsibility ethics. The Association of Catholic Entrepreneurs (BKU) in the Federal Republic of Germany published some basic thoughts in 1989 on the tasks of the entrepreneur in the modern working world. According to this, these include all efforts and processes by which human labour is to be moulded in such a way as to bring dignity and personal development into harmony with the objectives of the family, the enterprise and the state. Economic, technical and social innovations open up new ways to

achieve this. They provide a chance to meet better than before the changed attitudes and justified wishes of many people. Differentiation and flexibility are important preconditions. To turn away from collectivist uniform rules and towards more independence for employees to co-operate creatively, either individually or in small groups, is to act in accordance with the principle of subsidiarity upheld by Catholic social thinking. It also means progress in the deployment of the social market economy: Subsidiarity lays the foundation for more freedom and responsibility.

6. Enterprise culture

For some years now the theory and practice of enterprise culture have to an increasing extent been the subject of discussion in North America and Europe. It is true that this somewhat vague term is open to different interpretations. But the idea of culture as an essentially human field of activity is always the starting point. There are therefore different ways in which attempts are made to alter the realities of enterprise in such a way as to create a more human environment to replace purely mechanistic-rational processes.

In Europe the term 'enterprise culture' is not always welcome because people are used to distinguish between culture, which has intellectual and artistic connotations, and civilisation which is concerned with the natural sciences and technology. The concept of enterprise culture is an attempt to place greater emphasis on ethical considerations and behaviour within the enterprise. Peter Drucker ('Die Chance des Unternehmers', Düsseldorf 1987) looks upon enterprise culture as a means to justify entrepreneurial power by rooting it in genuine values.

Much of what has been said on the subject of the socio-ethical responsibilities of an entrepreneur comes under the heading of 'enterprise culture'. Undeniably however, the term is often abused to serve as a boost for the social image of the entrepreneur, without producing any real effect on the actual management of the enterprise. Nevertheless the increasing discussion around the concept of 'enterprise culture' should be regarded as something positive in that it is a further attempt to humanise modern management. The question is, what importance management attaches to the values and skills of people within the enterprise. The communication of purpose is intended to increase the sense of belonging. A yardstick among others which can be applied to enterprise culture is the manner in which pensioners and social cases are treated or people dismissed, but also whether conflicts are solved in a way compatible with human dignity.

Corporate identity as mostly understood in practice is not enterprise culture, though it can give the enterprise a recognisable face by design and style of communication. Corporate identity does not -and is not meant to -transmit a sense of purpose, which is the very essence of enterprise culture.

An outward characteristic of enterprise culture is the way in which it copes with social disputes such as e.g. those concerning baby-food (Nestle) or asbestos (Eternit) or ecological problems. Hans Ulrich, the well-known Swiss management expert, calls for 'voluntary self-restraint in the pursuit of selfish aims for the benefit of the common good'. This may give rise to problems in individual cases but rightly points out that management must take on board the need to assume social responsibility.

Two American attempts at the practice of enterprise culture are presented briefly in the following.

Corporale Ethics: A Prime Business Asset

In February 1988 an organisation of American entrepreneurs known as 'The Business-Roundtable' published a report on 'Policy and Practice in Company Conduct' entitled 'Corporate Ethics: A Prime Business Asset'. It covered 100 companies and showed that many leading US companies have long attached importance to 'ethical behaviour'. Codes of ethics (or

conduct) are wide-spread. But it is only recently that more managers have begun to discuss ethical problems and how they might be solved. More efforts are now being made to create the organisational and structural conditions in the companies 'for ethics policy and to ensure ethical action'. It has emerged that management has to play the decisive role in enforcing an ethical policy in the company. The top-manager of a company must be visibly committed to 'ethical conduct and set a good example. Such a policy is communicated throughout the company by different means: directives, policy statements, lectures, company newspapers and practical action. The myth of an irreconcilable conflict between ethics and profit is exploded by presenting a number of entrepreneurs as examples. These are convinced that there is no conflict between ethical behaviour and acceptable profit. Evidently, more people are being convinced that in an age of increased competition credible enterprise culture based on ethical behaviour is an important condition for the survival and the profitability of the company.

At an earlier stage Schmölders had already pointed out that a broad tendency towards improving the 'quality of life' seemed to be gaining ground in North America. Practical measures on the lines of 'corporate social responsibility' are to prove that companies are fully aware of their social responsibilities.

The report on social ethics notes that most companies lay down in writing their principles on ethical behaviour throughout the organisation. These codes of conduct differ from industry to industry, but the following issues were taken up in nearly all of them:

- Honesty and respect of the law,
- Safety and quality of products,
- Safety and health at the place of work,
- Conflicts of interest and their solutions,
- Practices with regard to labour contracts,
- Fairness in distribution practice,
- Relations with suppliers,
- Conclusion of contracts,
- Price-fixing and insider-dealing on the stock market,
- Bribes with regard to acquiring orders or information,
- Environmental protection.

Open communications within the company are of particular importance if ethical principles are to be enforced. This is possible only in an atmosphere of mutual confidence within the company. If ethical principles are violated, any punishment should be discretely applied. The aim is not education through punishment but through example and praise.

In 1987 Boeing revised its 'Business Conduct Guidelines'. The company has a tradition of strong 'commitment to ethical management'. The management had on its own initiative worked out an effective ethical programme, which has proved its worth in difficult situations for the company. It is the job of top-management to make sure that the managers of divisions or subsidiaries support the 'ethical conduct' programme.

Another company, General Mills, is convinced of the vital importance of good service to the consumer. In its opinion there is no conflict between the firm's applying ethical principles and consumer acceptance, which are in fact only two sides of one medal.

Hewlett Packard (HP) attaches particular importance to ethical behaviour on the part of its staff. Characteristically, one senior member of management has said: 'It is not easy to get fired around HP, but you are gone before you know it if it is an ethics issue'. In order to keep values and ethical standards alive in the company they must be constantly reiterated in speeches, talks and staff communications.

One company, Norton, set up an 'Ethics Committee of the Board of Directors' as far back as in 1976. This committee is intended to signify that the code of conduct is being taken seriously.

It assists management in difficult cases and ensures objectivity in disputes. One president of the company said: 'Management must use the board committee as a kind of Damocles sword, hanging over the operations at all times, ready to arbitrate at a moments notice'.

Though these few examples do not present a picture of enterprise culture in the widest sense, they do give convincing proof that large companies are making a serious effort to enforce ethical principles in management.

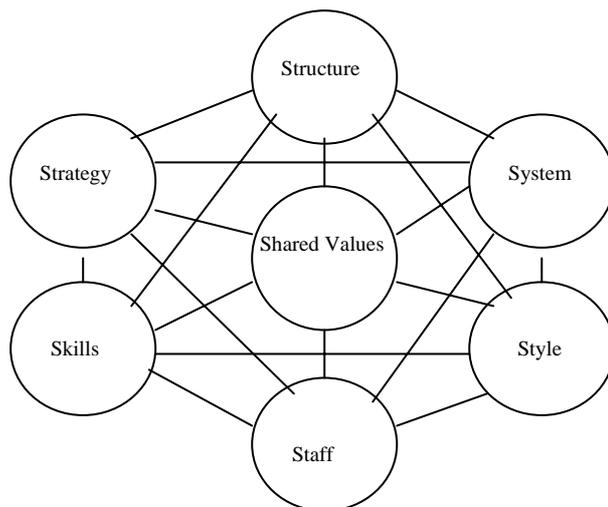
In Search of Excellence: Successful American Companies

In their bestseller 'In Search of Excellence' Peters and Waterman have researched into the conditions for the success of large companies. They came to the conclusion that it was due to the optimal joint effect of 7 variables : .

- Organisational structure
- Strategy
- Staff
- Style of management
- Systems and processes .
- Shared values (culture)
- Skills

They have presented this in a 7-S-Framework centered on 'shared values'.

McKinsey 7-S Framework ©



In our context the central significance allocated to 'shared values' is important. This is no more nor less than the core of enterprise culture. That repeatedly comes to the fore in individual descriptions. A particularly important role is played by the relationship between management and staff. In successful companies staff are treated as adults and are listened to. Creative staff are allowed a wide margin in developing their own ideas. This may sound rather easy but apparently is not so in the context of the other 6 variables. Though good personnel management is a necessary, it is not always also a sufficient pre-condition for a company's success.

And yet: shared values, a convincing enterprise culture, are essential if a modern enterprise is to have continuing success.

Summing up, it is possible to claim that economic success is not in conflict with ethics, but rather that they condition one another. Ethically motivated entrepreneurial initiatives, consciously and with conviction intended to contribute to the common good must preempt government regulations. Ethics rest upon free will and not upon compulsion.

FINAL REMARK

The revolutionary events which have taken place in Eastern Europe since the end of 1989 compel us to note that economic and political freedom are conditional one on the other. Free entrepreneurs and companies, that is to say economic freedom in the broadest sense, are essential to democracy. Entrepreneurs are not a privileged caste; they are an important element in a free society.

It was one of the purposes of the present essay to make this clear.

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The author:

Peter H. Werhahn, born in 1913, was member of the board of a family-enterprise with numerous subsidiaries in industry and commerce. He holds a doctorate in Economics.

From 1960-1964 he was president of the International Union of Christian Business Executives (UNIAPAC).

INDEX

- Adam Smith 3, 9, 10
Bismarck 11
Briefs 9, 15
capitalism 5, 11
development 10, 14, 15, 21, 26, 27, 29
economy 5, 6, 7, 10, 11, 12, 14, 15, 16, 17, 18,
19, 20, 21, 23, 24, 25, 26, 27, 28, 30
encyclical 11
freedom 7, 20, 30, 33
Gaudium et Spes 18, 19, 20, 21
Gompers 15
Höffner 18, 35
John Paul 35
Ketteler 11
Kolping 11
Leo XIII 11, 19
liberals 10, 16, 19
Mater et Magistra 18, 19, 20
Old Testament 8
Paul VI 19, 20
Pius XI 34
Pius XII 34
property 7, 11, 18, 19
Quadragesimo Anno 18, 20, 21
Ratzinger 21, 35
Rerum Novarum 5, 18, 19
responsibility 10, 11, 16, 17, 18, 19, 21, 24,
25, 29, 30, 31
Ricardo 3, 9, 10
social teaching 5, 18, 19, 20, 21
socialism 9, 11, 19
solidarity 20
subsidiarity 17, 20
Thomas Aquinas 8
Vatican Council 18, 19, 21
Werhahn 1, 36